

PROVIDER REIMBURSEMENT REVIEW BOARD
DECISION
ON THE RECORD
2005-D69

PROVIDER –
Columbia Montour Home Health Services
Bloomsburg, Pennsylvania

Provider No.: 39-7086

vs.

INTERMEDIARY –
BlueCross BlueShield Association/
Cahaba Government Benefit
Administrators

DATE OF HEARING -
July 15, 2005

Cost Reporting Period Ended -
June 30, 1998

CASE NO.: 01-3317

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ISSUE:

Whether the Intermediary's adjustment of accounting fees was proper?

MEDICARE STATUTORY AND REGULATORY BACKGROUND:

This is a dispute over the proper amount of Medicare reimbursement to a provider of medical services.

The Medicare program was established to provide health insurance to the aged and disabled. 42 U.S.C. §§1395-1395cc. The Centers for Medicare and Medicaid Services (CMS, formerly the Health Care Financing Administration (HCFA)) is the operating component of the Department of Health and Human Services (DHHS) charged with administering the Medicare program. CMS' payment and audit functions under the Medicare program are contracted out to insurance companies known as fiscal intermediaries. Fiscal intermediaries determine payment amounts due the providers under Medicare law and under interpretive guidelines published by CMS. See, 42 U.S.C. §1395(h), 42 C.F.R. §§413.20(b) and 413.24(b).

At the close of its fiscal year, a provider must submit a cost report to the fiscal intermediary showing the costs it incurred during the fiscal year and the proportion of those costs to be allocated to Medicare. 42 C.F.R. §413.20. The fiscal intermediary reviews the cost report, determines the total amount of Medicare reimbursement due the provider and issues the provider a Notice of Program Reimbursement (NPR). 42 C.F.R. §405.1803. A provider dissatisfied with the intermediary's final determination of total reimbursement may file an appeal with the Provider Reimbursement Review Board (Board) within 180 days of the issuance of the NPR. 42 U.S.C. §1395oo(a); 42 C.F.R. §405.1835.

Medicare regulations at 42 CFR §413.20 and 413.24 require that providers maintain sufficient financial records and statistical data for the proper determination of costs payable under the program. 42 CFR §413.24 further requires that cost data must be based on an approved method of cost finding and on the accrual basis of accounting. The issue in this appeal involves the application of the principles of accrual accounting.

STATEMENT OF THE CASE AND PROCEDURAL HISTORY:

Columbia Montour Home Health Services (Provider) is a voluntary, nonprofit home health agency located in Bloomsburg, Pennsylvania. On December 19, 1997 the Provider signed an engagement letter with its auditors for the examination of its 6/30/98 financial statements. The engagement letter set the audit fees for 1998 at \$25,000. The Provider subsequently claimed \$21,400 in external audit fees on its cost report for the fiscal period ended 6/30/98. Cahaba Government Benefit Administrators (Intermediary) examined the amount claimed and found that the Provider had paid \$2,200 during the period and \$18,000 in the subsequent period (1999) relating to audit fees. The Intermediary could not obtain documentation in support of the remaining \$1,200 claimed on the cost report.

Based upon its review, the Intermediary allowed the \$2,200 payment on the 1998 cost report, disallowed the \$18,000 payment in 1999 as unrelated to the reporting period and disallowed the \$1,200 differential as unsupported. The issue in dispute involves the appropriate time to recognize the audit expense.

PARTIES' CONTENTIONS:

The Provider disputes the Intermediary's adjustment and argues that it properly accrued accounting fees as required by Generally Accepted Accounting Principles (GAAP). The Provider contends that GAAP requires that expenses be recognized when the product makes its contribution to revenue and that the audit services for the FYE June 30, 1998 are properly matched with that fiscal period.

The Provider also contends that GAAP requires consistency. The Provider treated audit services consistently on its books for 1998 and all prior periods and the Intermediary accepted this treatment in prior years. The Provider argues that the Intermediary's treatment is inconsistent over cost reporting periods and its current stance does not address payments made in 1998 for the 1997 financial audit.

The Intermediary contends that the Provider's treatment is inconsistent with both GAAP and Medicare accounting requirements. 42 CFR §413.24 and GAAP accrual accounting require the recognition of expenses when incurred. Accrued expenses are those for which benefit has been received but cash has not been paid. The Intermediary argues that the 1998 audit took place after the year end and that no benefit took place prior to June 30, 1998. Accordingly, no accrual should have been made.

Further, the Intermediary contends that the Board addressed the same issue in its decision in Whitley County Memorial Hospital v. Blue Cross Blue Shield Association et. al.¹ There the Board held that where a service has not yet been performed, no liability exists and no accrual should be made.

FINDINGS OF FACT, CONCLUSIONS OF LAW AND DISCUSSION:

The Board, after consideration of Medicare law and guidelines, the parties' contentions and the evidence contained in the record, finds and concludes that the Intermediary's adjustment to the Provider's accounting fees was proper.

The pivotal issue in this appeal is the application of accrual accounting principles within the requirements of the Medicare program. The Board reviewed the principles of accrual accounting, the regulations governing their application within the program and prior decisions of the Board on the proper accrual of expenses and fees. The Board's review finds that Accounting Principles Board (APB) Statement No. 4 requires that an accrual should be made in the time period that a transaction or event takes place. Where a service has not yet been performed, a liability does not exist and no expense should be

¹ Whitley County Memorial Hospital v. Blue Cross Blue Shield Association et. al., PRRB Decision 86-D111, August 28, 1986

accrued. Further, 42 CFR §413.24(b)(2) states that “an expense is reported in the period in which it is incurred...” The collective requirements of the APB statement and 42 CFR §413.24(b)(2) make it clear that an expense must be incurred before it can be accrued. Accordingly, the Board finds that the Provider may not accrue audit service fees in the current year for services that will be performed in future years. The Board also finds that the execution of a contract for audit services in the current year does not make the amounts articulated in the contract incurred expenses under the requirements of 42 CFR §413.24(b)(2).

The Board acknowledges that the Intermediary’s position appears inconsistent over cost reporting periods. However, the language of the regulation at 42 CFR §413.24(b)(2) prohibits the recognition of expenses before they are incurred.

DECISION AND ORDER:

The Intermediary’s adjustment of the Provider’s audit fees was proper. The Intermediary’s adjustment is affirmed.

BOARD MEMBERS PARTICIPATING:

Suzanne Cochran, Esquire
Gary B. Blodgett, D.D.S.
Elaine Crews-Powell, C.P.A.
Anjali Mulchandani-West

FOR THE BOARD:

DATE: September 16, 2005

Suzanne Cochran, Esquire
Chairperson